LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6159 **DATE PREPARED:** Jan 7, 2001
BILL NUMBER: HB 1483 **BILL AMENDED:**

SUBJECT: Local Option Education Income Tax.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: **Establishment of Education Income Tax-** This bill establishes an optional school district education income tax (EIT) that applies to individuals (based on the adjusted gross income of individual taxpayers) and to corporations (based on the apportioned supplemental net income of corporations) that are subject to the supplemental net income tax (SNIT). It provides that each school income tax district is comprised of the school corporations that have their budgets reviewed in the same county.

EIT Rates- It allows school corporations in a school income tax district to collectively impose an individual EIT at a rate of not less than 0.5% and not more than 1%. It includes a corporate EIT at a rate of not less than 0.5% and not more than 1% applied to a corporation's supplemental net income, which is apportioned using the ratio of the corporation's assessed value of property in the county to the assessed value of all the corporation's property in Indiana.

Property Tax Replacement Credits- It uses the income tax revenue for property tax replacement credits. It provides that the property tax reduction does not affect the 20% property tax replacement credit paid by the State. It provides that for purposes of computing and distributing excise taxes, distributions under the education income tax that are used as property tax replacement credits shall be treated as property taxes.

Effective Date: Upon passage.

Explanation of State Expenditures: The administration, auditing, and collection of the individual and corporate EIT would result in an increased administrative cost to the Department of State Revenue.

Explanation of State Revenues:

Explanation of Local Expenditures: School income tax districts would incur costs associated with public notice and hearings regarding the imposition of the individual and corporation EIT. These costs would vary from district to district.

Explanation of Local Revenues: This bill would establish school income tax districts (throughout the state), with each tax district being comprised of its school corporations having their respective budgets reviewed in the same county. It would establish an EIT council within each district (an EIT council would have the authority to adopt ordinances to either impose, rescind, increase, or decrease education income taxes for its district).

School income tax districts would be allowed to impose an EIT on individuals at a rate of no less than 0.5% and not more than 1.0% based on the adjusted gross income (AGI) of the respective individual taxpayer. Business entities (e.g., partnerships and Sub S corporations) would have income taxed at the individual rate, and paid by the individual partners or shareholders.

School income tax districts would be allowed to impose an EIT on corporations at a rate of not less than 0.5% and not more than 1.0% based on the apportioned supplemental net income (SNIT) of the respective corporation (apportioned net income for each corporation would be calculated by multiplying the total supplemental net income for that corporation by the ratio of the corporation's assessed value in the district to the corporation's total statewide assessed value).

It would require that both the individual EIT rate and the corporate EIT rate be identical in each school income tax district.

The ultimate impact of this bill would depend upon local action. This analysis assumes that **all** school corporations would become members of the school income tax districts, and that all appropriate ordinances would be adopted.

The numbers provided here estimate a **total statewide impact** as a result of this bill. Based on the December 19, 2000 Revenue Forecast, this analysis assumes a 6.1% increase in individual AGI revenue and a 1.5% increase in supplemental net income tax (SNIT) revenue from FY 2001 to FY 2002. FY 2003 revenues are expected to increase by 7.5% for individual and approximately 1.5% for business taxes. Expected revenues for a full tax year are as follows:

1% TAX			0.5% TAX	
	Individual AGI	Business SNIT	Individual AGI	Business SNIT
FY 2002	$1,253.1 M	$83.7 M	$626.6 M	$41.9 M
FY 2003	$1,347.3 M	$85.0 M	$673.6 M	$42.5 M

This analysis also assumes that districts are formed as soon as possible. This would mean an adoption of the tax in July 2001, with the first distribution to school corporations in CY2002.

This bill would require that the Department of State Revenue (before July 2 of each year) estimate and certify to the county auditor of each district, the amount of EIT revenue that would be collected from July 1 to June 30 of the next year (this amount would be the district's certified distribution). It would require that half of the certified distribution be distributed to the county treasurer of each district before May 1 of the following year, and the other half before November 1. The certified distribution would then be deposited in each district's account within the state General Fund until distribution.

Once received, the county treasurer would allocate the local option EIT entirely to property tax replacement credits. The funds would then be distributed to each school corporation according to its size in relation to the total district. Similarly, the school corporations would distribute the funds within the budget to each line item according to its size in relation to the total budget.

The bill would require that property tax replacement credits be allocated among each fund in which a corporation has a levy. For example, if a particular school corporation does not have a Debt Service Fund levy, then the credits would be allocated to other school corporation funds (e.g., General, Capital Projects and Transportation).

This bill would require that the 20% state property tax credit provided through the state Property Tax Replacement Fund will not be affected by this proposal. The credits would be considered as part of the school corporation's property tax levy for each fund for purposes of fixing the school corporation's budget.

Any property tax replacement credits from the EIT would result in decreased property tax rates and therefore smaller property tax bills for taxpayers. There would be some shift in the tax burden among district residents and businesses. Renters, for example, would take on obligations while property owners could experience tax relief as a result of this bill. There could also be some shift in the tax burden within the business sector as corporations would be subject to income tax while other businesses may not be.

This bill would stipulate that elderly and disabled persons be entitled to credits against their EIT similar to the credits available for individual income taxes. The credit for the EIT would equal the lesser of the following:

Elderly or Disabled Credit * (EIT rate/.15); or

the amount of EIT actually imposed on the individual taxpayer and the individual taxpayer’s spouse. The impact of these credits would vary from district to district.

Total statewide elderly credits for 1997 and 1998 were $7,322,398 and $7,082,998 respectively.

State Agencies Affected: Department of State Revenue; State Board of Tax Commissioners.

Local Agencies Affected: School Corporations; County Auditors; County Treasurers.

Information Sources: December 19, 2000 Revenue Forecast; Department of State Revenue.